

CAPITAL AND

DEVELOPMENT

By

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CAPITAL AND ECONOMIC DEVELOPMENT

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The subject on which I propose to speak is Capital and Economic Development. I shall be doing a bit of theorising on the subject and I hope you wouldn't expect me to do much else.

Economic development is a historical process. But the theory of it in anything like a systematic manner is rather recent. It is essentially a post-war development and has come in the wake of experiments in planned economic development that have been undertaken in post-war years in the so-called under-developed countries. Everywhere there is growing appreciation of a conspicuous discrepancy in the level of income as well as the rate of economic growth in different countries of the world. It is also realised that a more rapid development of the eastern part of the world with its vast population and vast labour resources is conducive to international balance and stability and hence necessary for the healthy growth of the rest of the world, too. Economists are, therefore, interested now in constructing theories concerning the development of the countries which we know to be under-developed, with a view to finding out how it is possible for these economies to grow faster, so that the discrepancy between the economic imbalance may be reduced as far as possible.

2. I will start my analysis of the role of capital in the process of economic development by giving you a broad description of what we call an under-developed economy. I do this because, after all, the things that I propose to say follow from the hypothesis that I shall be making in the context of an under-developed economy. The need for

economic development and the need for capital associated with it is inherent in the basic characteristics of an under-developed economy. What are these characteristics? They are perhaps well known to you and yet I repeat them with a view to showing their connection with the need for capital towards economic development. First of all, these economies have a very low per capita income, "low" not only in relation to that of the more advanced economies, but also in absolute terms. In some of the under-developed countries the per capita income is on just about the subsistence level. Now one of the consequences of a low per capita income is a low rate of saving; I particularly mention 'per capita income' because there is very often a tendency to relate the rate of saving with aggregate national income. I would say that this is misleading. The concept of national income as such is not a very meaningful concept. Look at Australia or New Zealand. There the aggregate national income is not so high. But, since the population is scanty, the per capita income is high. What is relevant is the national income relative to the size of population. When you are considering the rate of growth, you should relate it to the growth of population. The basic concept is one of per capita income. If per capita income is low, the rate of saving must necessarily be low. Take the case of India. The per capita income here will be around Rs. 300 per year. Suppose that the entire national income of India is distributed equally among the people. Then probably the rate of saving will be zero, because with three hundred rupees it is impossible for any man to save anything. The fact is that some people have very much larger income than the average and the marginal income is obviously zero. I say zero because some of our people are unemployed. The large discrepancy between the higher range of income and the lower range—which is one of the features of under-developed countries—is thus at once a curse and a boon. While large inequalities are bad by themselves, it is because we have an unequal distribution of income that we have at all a positive rate of saving. But even with the unequal distribution of income such as we have, the rate of saving is very low relatively to the national

income. When our First Plan started, the rough estimate that we had suggested that the rate of saving was only about 5% of the national income. Now, if the rate of saving is low, the rate of capital formation also must necessarily be low. The formation of capital depends upon investment. And investment depends upon the rate of saving. You cannot invest more than you save. If there is low capital formation, there will be low income formation also. It is true that if people become more efficient somehow and if they work harder, then the rate of growth might be accelerated a little, even though the supply of capital is not increased. That is possible. But however hard your people may work, if you have a low rate of capital formation, obviously your production will be less mechanised and output per unit of labour will be low. Moreover, you will be turning to such occupations as would require less capital. And what are those occupations? Agriculture and small industries. Therefore, one of the basic characteristics of an under-developed economy is preponderance of agriculture and small industries, where there is less need for capital. Now, if you have in such economies too much of concentration in agriculture and small industries, as population grows there would be a continuous pressure on this particular type of occupation. We have, therefore, preponderance of agriculture and pressure of population upon agriculture in under-developed economies. The result is that as you push your population on a given supply of land and capital resources which are meagre, whatever your occupation may be,—and as I have said agriculture is the largest occupation—well, you can make provision for a limited amount of employment, and beyond that limit you cannot go. As you have more and more of labour employed on your given resources, there is diminishing return and the productivity of labour falls until it reaches the level of minimum subsistence. If the productivity tends to fall below that level, unemployment ensues. This unemployment will be open where the system is one of hired labour. It will be disguised where the system is one of family labour, disguised in the sense that although a whole lot of labourers are supposed to be working in the fields or in cottages, if some of them were disengaged, the

total output would remain more or less the same. Unemployment—open and disguised—is thus a special feature of those under-developed economies where, in the past, capital formation has not kept pace with the growth of population.

The basic characteristics of an under-developed economy are thus the following :

- (1) Low per capita income;
- (2) Low rate of saving;
- (3) Low rate of capital formation;
- (4) High rate of population growth relative to (3);
- (5) Pressure on agriculture and cottage industries;
- (6) Unemployment—open and disguised.

Now, it is on such an economy that we propose to superimpose conditions of economic development. If you leave such economies alone, then you will have a continuing spectacle of poverty. If you have low per capita income, low rate of saving, low rate of capital formation, then unless at some stage you push the economy upward by some artificial means, what will happen is that the economy will continue to be stagnant. Take, for example, an economy where the rate of saving is six per cent of the annual national income, where therefore the rate of investment, or in other words, the rate of capital formation is also six per cent of the annual national income. If in such an economy the technique of production on the whole is such that with three units of investment is associated a flow of one unit of income, then income will grow at the rate of two per cent per annum. Add to this the condition that population grows at the rate of two per cent per annum, and you have the spectacle of stagnation of per capita income. Well, this is the kind of economy with which we found ourselves saddled when we attained independence. As a matter of fact, if you consult our national income figures you will find that the per capita income has not increased appreciably during the last 150 years or so. Now this is a very dangerous situation. Planned economic development is just a way of getting out of this rut.

3. I have formulated the characteristics of an under-developed economy deliberately in a manner such as would highlight the importance of capital in economic development. Now if I put the matter like this without qualification, I shall be perhaps giving you a false sense of proportion. I am not suggesting that capital is the only thing that is necessary. There may be other things as well that are necessary. I should not surely rule out the significance of certain social and institutional obstacles to growth operating in the economy. I will refer to these other factors only incidentally because they are not a part of my discourse.

Well, it may be suggested—and it has been suggested by some—that in these under-developed economies the reasons why the rate of growth of national income has been so low are that the people themselves do not have the ‘will to economise’, that they are not very much concerned with material well-being. They are more pre-occupied with things other than the material, and plain living is what they desire to have. This tendency may have played some part in our country in the past. But I would not place much importance upon this argument. Looking at the present set-up of our society, I doubt very much that this is a significant obstacle to growth. Whether we are so keen on being rich or not, we know at least that a minimum degree of comfort is necessary for human existence, and we should of course have the will to economise to an extent that is necessary for lifting the economy to a level which is necessary for just human existence.

There are certain other factors which are rather important. The fact is that most of these countries have been politically dependent. Political dependence is a very important cause of economic stagnation. Even though we had the will to economise, we did not have the ability to economise on account of certain pressures brought to bear upon us by an external force. Political dependence is one of the causes, and I would say a very serious cause, of economic backwardness. We find, as a matter of fact, that there is a high degree of correlation between the degree

and duration of political dependence and the degree of economic backwardness. Most of those countries which are today under-developed have been at one stage or another under the domination of a metropolitan country.

Then there are social institutions also which are partly responsible for the backwardness of the economy. I may refer to our joint family system. The result of the joint family system is that some are dependent on some others and the person who is dependent does not have the urge to economise. That is very true; probably all of us have got some experience of this kind of phenomenon. However, it works the other way also. Even the person who is earning, who is helping others, may not have the will to economise on account of the fact that he knows that if he earns a little more, the benefit will be distributed among those who are dependent on him. Now, that probably is a subtle psychological inhibition from which most of even those who have the will to economise have been suffering from. Joint family system is, therefore, a curse from the economic point of view, although it may have other merits.

Then I will come to land tenure as an example of social institutions inhibiting growth. Agricultural production depends very much on the system of land tenure that you have. The system that we have had—given to us by the British Government—is not very conducive to agricultural improvement. Also attraction for village life, domestic system of production, association with special types of industries which are not so productive,—these may have operated as a sort of obstacle to economic development, although they may have been originally imposed on us by exigencies of circumstances.

Now these are some of the reasons why we have remained backward all these years. But as far as I can see, even if these obstacles were not there, economic development could not take place unless we had sufficient supply of capital with which labourers, which we have in abundance, could work. The material cause of the backwardness of our economy is certainly lack of capital.

4. Now what is it that we should mean by capital? In a way capital stands for all kinds of resources that go in for the production of commodities that we directly consume. There are some economists who put even labour in the category of capital. It is even suggested that abundance of labour in our country is itself potential capital. This is true. But for our limited purposes, I would put special importance upon what we call fixed capital. I am not saying this because I think the procedure is analytically valid. After all, capital is a comprehensive term and it includes all types of resources that we need for the production of consumption goods. But there is real deficiency, in countries of which I have been speaking, of fixed capital. Raw materials are necessary for production. Labour is necessary for production. But these resources you have. Beyond all this you have need for plants and machinery, factories, buildings etc. and also of skill. These latter constitute fixed capital and provide a durable basis of economic growth. I am asking you to underline this aspect of our capital problem. Broadly speaking, the material cause of the poverty of under-developed economies is lack of fixed capital relative to labour. That is why I have already said, if you have short supply of capital, then with increasing supply of labour created as a result of the growth of population, you fail to utilise the entire labour force that you command in the economy. If there are no plants, if there is no machinery with which these additional labourers can work, there is unemployment. What is necessary, therefore, is the accumulation of capital leading to the construction of factories, buildings, machines, etc.

From another angle, capital could be defined in a more sophisticated manner and there is a sense in which that definition is useful also. And that is to identify capital with time. In concrete terms by capital we mean buildings, factories, plants, machinery, etc. But if you just look below the surface, what you find is the use of time, time elapsing between the first input of labour and the final outcome. You employ labour for the production of capital goods. During the time that is necessary for the construction of

these plants and machinery you have got to wait. It is only after the period of waiting is over that by employing further labour and necessary raw materials upon the fixed capital, you can produce consumption goods. Waiting is thus of the essence of the formation of capital. It is in this sense that we connect accumulation of capital with savings. Saving means curtailment of consumption. The measure of saving is the amount of output minus the amount of consumption. To the extent that you have investment goods in your national income to that extent you are depriving yourself of potential consumption. That is tantamount to saving, and that is necessary for the formation of capital. There is thus a correlation between the rate of saving and the rate of investment, and hence the rate of capital formation. I use the term investment deliberately here to indicate that the process of capital formation is investment. You employ labour along with certain raw materials currently available and you produce a thing which is not for current consumption. You call it capital.

Now this capital may be directly producing consumption goods; it may also be used for the production of further capital goods. Let us take iron and steel. Steel you are producing with investment of labour and raw materials currently available. This steel as such cannot produce consumption goods. It goes into the construction of certain other things which are also capital goods. Further investment is necessary for the formation of other types of capital goods. That is, capital goods must again produce capital goods and so on and so forth, until you come to the final capital goods which, with labour and raw materials, will produce consumption goods. You will come after a lapse of years to the point where you have the supply of goods for direct consumption.

5. Now, what is the relation between the rate of investment and the flow of output? Remember that output consists of capital goods as well as consumption goods. In each line of investment there is a certain relation between the amount of capital formed and the output that is realisable from a full capacity working of the capital goods with

necessary labour. This relation you may put as output-capital ratio. If you take all lines of investment you get the aggregate output-capital ratio. Let me repeat this. You have a certain stock of capital goods and you invest labour on it towards the formation of further capital goods. This is an additional investment. Now when the final capital goods will be produced, that will be worked with additional labour at full capacity resulting in a certain flow of output. This will be the additional output consequent on the additional investment that you have made. The final output appearing as a flow will be the result of the use of capital as well as the recurring labour utilised along with that. This output, as I have said, as well as the investment will have to be considered in value terms, in order for them to be comparable. The value of the output thus includes the wages that you pay for the use of labour as you operate the capital equipment at full capacity, although it is net of depreciation of the capital used.

Now I should point out that the ratio between output and capital is not constant over time, nor is it uniform in respect of different types of investment. It depends upon the type of capital goods that you are making and the type of output towards which you are using your capital; in the same industry also there may be fluctuations in the output-capital ratio with the passage of time, on account of technological improvements on the one hand and operation of diminishing returns on the other. If, however, taking the average for the economy as a whole, and assuming that fluctuations are negligible, we take it that there is a certain broad relation between the output and the capital that yields it, then we come to certain interesting conclusions, which are basic to a theory of economic development.

6. Assume that there is a certain output-capital ratio, constant at 1:3. This means, as we have seen, that if you make an additional investment of 3 units in terms of rupees, you get an additional output of one rupee. Assume also, as before, that the rate of saving, and hence the rate of investment, in the economy is six per cent, so that the rate of growth of national income is two per cent. If, in such an

economy, the growth of population is two per cent also, the per capita income will remain constant. And since the rate of saving is a function of per capita income, other things remaining the same, the stagnation that we talked of in the beginning will be perpetuated. If now the rate of investment is somehow raised to, say, nine per cent, the per capita income will increase by one per cent. And immediately this happens there will be a scope for increase in the rate of investment even beyond nine per cent. Assume that whatever is saved is invested towards the formation of capital. Then, if you know the percentage of the national income that is saved and hence invested, if you also know output-capital ratio and, thirdly, if you know the rate of growth of population, you can find out the rate of growth of per capita income. And if you have that, you can set up a formula which, given the level of per capita income at the present moment, will indicate to you what will be the level of per capita income, say, after one year, after 2 years, after 3 years, after 4 years and so on, according to the principle of compound interest.

The relationships suggested here can be set out in the form of two equations :

$$G = S \cdot \frac{O}{C} \quad \dots \quad (i)$$

$$g = G - p \quad \dots \quad (ii)$$

where G stands for the rate of growth of national income; S for the rate of saving; O/C for the output-capital ratio; g for the rate of growth of per capita income; and p for the rate of growth of population.

Now from these equations it follows that if, for example, your rate of saving is constant and the output-capital ratio is constant, then the rate of growth of national income also will be constant. And if the rate of growth of population is constant, then the rate of growth of per capita income also will be constant. The question is, can we afford to keep all this constant? It depends upon the level with which you start. If we start with a very low per capita income as it is in India, then we would take years and

years in order to reach a satisfactory level of per capita income. Now we can accelerate the growth by changing one or the other of the variables. You can accelerate the rate of growth of per capita income by raising the rate of saving, by raising the output-capital ratio, or by lowering the rate of growth of population. Now, population control, if at all it is possible, is a long-term affair. And output-capital ratio is a problem of technology. It is variable within limits, no doubt; even in the short period you can vary it to some extent by varying the pattern of investment. But you will go off on false scent if you think that this can be carried very far; not all labour-intensive techniques yield high output-capital ratio. Moreover, as we shall see presently, there is the question of output per unit of labour sinking as your method becomes more labour-intensive. We have to fall back, therefore, upon the rate of saving. For under-developed economies the great problem is the problem of how to raise the rate of saving, when the per capita income to start with is low. Here again, difficulties arise only in the initial stages. Once you set the ball rolling towards an appreciable rise in the per capita income, you can maintain an ever-rising standard of living, and yet secure adequate investible resources by acting on incremental incomes of individuals. The austerity that one hears planners talking about refers to the early stages of planning. As soon as per capita income starts rising to any appreciable extent, you want only a part of the increment of per capita income to be saved for the formation of capital towards further economic development.

*7. So far so good. We know that if we can have a process of increasing per capita income started, it is possible to accelerate the process of capital formation by drawing upon a larger and larger proportion of the increment of per capita income over time. Suppose, to start with, the rate of saving is 9 per cent of national income per annum resulting, on the assumption of an output-capital ratio of 1:3, in an

*The following paragraphs were published, with a little adaptation, in the form of an article in *The Economic Weekly* (Annual Number, January 1960).

increment of national income by 3 per cent per annum. Suppose also, as before, that the rate of growth of population is 2 per cent. You have then an increment of per capita income by 1 per cent, which is one-third of the rate of increment of aggregate income. In this particular case you can have your people save as much as $33\frac{1}{3}$ per cent of the increment of aggregate income over the year and yet maintain the same average level of consumption. This is something which is very significant. Just look at the figures: 9 per cent is the rate of saving, to start with. If the saving out of the increment of income is also 9 per cent, you have a constant average rate of saving and, on the assumption of a constant output-capital ratio, a constant rate of growth also. On the other hand, if the saving out of the increment of income is more than 9 per cent, the average rate of saving is raised, and you have possibilities of a higher rate of capital formation and a higher rate of growth. You can accelerate the process by saving on the average more and more out of the increment of income till it reaches $33\frac{1}{3}$ per cent of the increment of aggregate income. It is only when you go beyond this that the average standard of consumption goes down. You have thus two limits between which the saving out of the increment of income (marginal rate of saving, as we may call it) may be permitted to lie,—one set by the original rate which is the minimum needed for preventing a fall in the rate of growth and the other set by the difference between the rate of growth of national income and the rate of growth of population—which is the maximum you can have if the average standard of living is not to fall.

Remember that the more you move towards the maximum point the larger will be the income increment itself out of which you will be asked to save and the greater therefore will be the possibility of raising the rate of saving and hence the rate of growth. The advantage of having the marginal rate of saving above the average rate is that it has a cumulative effect on the rate of growth, making it rise progressively. And this is what an under-developed economy needs, at any rate over the period unemployment due to capital shortage still remains a problem.

This brings us to another concept which I would ask you to bear with me, the concept of labour-capital ratio. Given a certain technology, there is a certain quantity of labour that a piece of capital good can accommodate if worked at full capacity. If we know this relation between each type of capital good and the number of labourers that it can absorb at full capacity, we can work out the average labour-capital ratio for the economy as a whole in the same way as the output-capital ratio is worked out. What the labour-capital ratio tells us, in other words, is the amount of capital in value terms that is used in the economy per person employed. Fix upon this concept of labour-capital ratio, L/C , where L stands for labour and C , as before, stands for capital. This ratio has important bearing on the employment aspect of economic development, even as the output-capital ratio has on the income aspect. Before I take you on to this employment aspect, I would take the liberty of putting up a very simple equation (or rather an identity) showing how the output that you can derive from a unit of labour is given by the ratios that we have already gone into.

$$\frac{O}{L} = \frac{O}{C} \bigg/ \frac{L}{C}$$

The equation tells us that the output that is associated with a unit of currently employed labour is a function of two ratios,—the output-capital ratio and the labour-capital ratio. It rises if the value of O/C rises, L/C remaining the same, and falls if the value of L/C rises, O/C remaining the same. Again—and this is more realistic—it rises if the value of O/C rises more than that of L/C and falls if the value of L/C rises more than that of O/C . All this has an important bearing on the choice of technique in economic development about which you have heard so much. It is sometimes suggested, as we have already noted, that in an under-developed economy which suffers from shortage of capital, we should adopt techniques which are associated with high output-capital ratio. Well, this seems on the face of it to be unexceptionable. It seems an easy deduction from equation (i) namely, $G = S \cdot O/C$, that if S remains constant at a

low level, then we raise the value of G by raising the value of O/C . Consider this, however, along with the new equation that you have got, and you will see that the deduction is a little too facile. If you can raise the value of O/C through technological and organisational improvements which make capital more efficient, well and good. But if you do it by choosing a technique which is labour-intensive, *i.e.*, by raising the value of L/C , then your method becomes open to question, for while you may raise the output per unit of capital, you lower the output per unit of labour. Further, in so far as an increase in the labour-capital ratio increases the total wages bill relatively to profits, the introduction of labour-intensive technique is likely to have an adverse effect on S , which is one of the variables determining the rate of growth.

8. Now about the employment aspect of economic development. Here again I will ask you to make a few assumptions. Assume that the output-capital ratio (O/C), the labour-capital ratio (L/C), the rate of population growth, the proportion of labour force to total population are all constant over the period that you have in view. Assume further that there is full employment—whatever you mean by it—to start with. If population grows at the rate of 2 p.c. per annum, then if full employment is to be maintained over time, aggregate employment must increase at the rate of 2 per cent per annum. Now, since L/C is constant, aggregate capital must also increase at the rate of 2 per cent per annum. We shall therefore get the same percentage increase in output, assuming what economists call constant returns to scale. For a 2 per cent increase in aggregate output we need, as we saw before, a rate of saving of 6 per cent of the national income if, as before, we assume the output-capital ratio to be 1:3.

What does all this mean? It means that under the assumed conditions you have an increase in national income at a constant rate, a constant rate of consumption per capita and full employment conditions in the economy over time. I am presenting this simplified picture in order to be able to highlight the complications that beset an under-developed

economy of the type that we have in view. Let us remind ourselves of two things which have already been noted, namely that, to start with, we have a large volume of unemployment and average living levels are below standard. So we have two responsibilities. First, we have to raise the rate of employment so as to be able, within a prescribed period, to absorb the current volume of unemployment; and this will require a rate of investment higher than that postulated above. How much higher? Well, that depends upon how quickly you would complete the process of absorption. The more quickly you want to realise a state of full employment, the higher will have to be the rate of investment in the transition period. Suppose, for example, you have initially a backlog of unemployed of the order of five million and, considering the rate of population growth and the proportion of labour force to the aggregate population, a further addition to the labour force of the order of ten million over the planning period of, say, five years. Suppose also that in the absence of current unemployment, you would need an investment rate of 6 per cent of annual income for absorbing the yearly additions to the labour force. Then, —again on the assumption of constant labour-capital ratio—we have to raise the rate of investment to 9 per cent if we wish to attain a level of full employment in the course of five years. If the period of transition is extended we may go in for a lower rate. But in any case the rate has to be higher than 6 per cent.

Secondly, we have to raise the average level of living which, to start with, is below a tolerable minimum. It is true that the productive employment of people who had been hitherto unemployed would itself be accompanied by a rise in per capita income. Yet, so long as the output-labour ratio remains the same, the rise in the per capita income such as would result from just the absorption of the unemployed cannot be of an appreciable order. After all, the proportion of current unemployment to total population cannot be very large in any case; in our economy it will be somewhat around 2 per cent, if you leave out 'disguised' unemployment, and perhaps around 5 per cent, if you include

it. If an impression is to be made on per capita income you cannot be content with merely having enough additional capital to provide for the unemployed; you have to raise the output-labour ratio itself.

9. Now, this latter can be achieved, as we have seen, by raising the output-capital ratio or by lowering the labour-capital ratio. Both involve a change in the technique of production, the former of a 'capital-saving' character and the latter of 'labour-saving' character. In an economy where capital is scarce and labour is abundant, it is clear that capital-saving techniques must be preferred to labour-saving techniques; at any rate the former must be made to overbear the latter. The scope of the former, however, appears to be limited. For, it may well be argued that in so far as there was any such scope, it would be adopted as a matter of course; the scarcity of capital is expected by itself to impose on the economy a full use of any *known* technique of production of the capital-saving variety. Now of course this is not altogether correct. It so happens that in most of the under-developed economies the price of capital (*i.e.*, the rate of interest) in the organised sector is not as high relatively to the wages of labour as is warranted by the relative degree of scarcity of capital and labour. I do have a feeling that cases can be discovered in the organised sector of our economy of misdirection in the use of capital arising from a divergence between the warranted rate of interest, we may call it, and the market rate of interest. It is indeed very necessary that in our planned projects—whether in the private sector or in the public sector—calculation of relative costs in respect of different lines of production and in respect of different techniques within each line should be based on an estimate of the warranted rates of interest and wages rather than on the actual rates in the market. Yet when all is said it appears that if we are to have a structure of production which is enough capital-saving to yield a satisfactory output-labour ratio, we must discover *new* lines of production and *new* techniques. And this involves research and, at the initial stage at any rate, capital to finance research. On the other hand, if new capital saving devices are not forthcoming,

the alternative is to follow the traditional method of industrialisation, which is to use techniques involving less labour relative to capital. The latter process is easier, for you can import these techniques already in use in the more developed Western economies. Now this results in what is called technological unemployment. And in order to accommodate this newly created body of unemployed, the economy must be provided with more capital than would be the case if the labour-capital ratio had remained constant. Here again, if, with constant labour-capital ratio, the full employment rate of saving is 9 per cent of the national income as on our previous hypothesis, then it has to be 18 per cent if the labour-capital ratio is halved, 13.5 per cent if the labour-capital ratio is made two-thirds, and so on. In general terms, if, with a given labour-capital ratio, L/C , the full employment rate of saving is S , then as L/C is changed into L'/C , where $L' = L/X$, the new full employment rate of saving becomes SX . The extent to which the rate of saving has to be raised under the changed conditions thus depends upon the value of X ; the higher it is, the higher will be the full employment rate of saving.

10. The test of economic progress is not just maintenance of full employment. A country which is already advanced and has a high average standard of living can afford to take full employment as a unique goal of economic policy, a certain minimum level of growth being implicit in it. But for an under-developed country such as ours where in the past the rate of capital formation has failed to keep pace with the growth of population and where people's standard of living has been systematically pressed down, the essential test of economic progress is raising productivity of labour; maintenance of full employment is not enough. This is what makes the task of economic development of an under-developed economy in our sense so formidable. The twin task of creating employment opportunities and raising labour productivity may require the level of saving to be pushed up many times the level to which the people are used. In our case, the Planning Commission put the required rate of saving at 17-18 per cent of national income

as against the normal level of 5 per cent as they guess it was at the time planned economic development started. So long as the additional savings are drawn out of annual increments in per capita income, the target is obviously within the bounds of possibility. Yet who will deny that the realisation of the target involves tremendous organisational effort unlike any that a democratic society has hitherto experienced? It is just this that lends special significance to India's experiment in economic planning.

